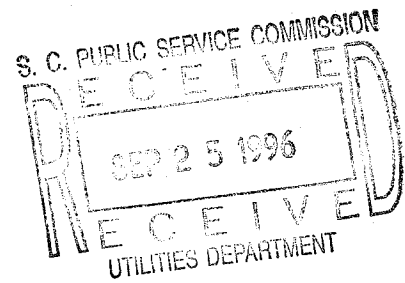


**TEGA CAY WATER SERVICE, INC.**

**Docket No. 96-137-W/S**

**Direct Testimony Of  
Patricia M. Cuddie**



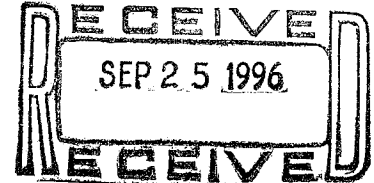
**September 25, 1996**

**POSTED**  
9/25/96

**TEGA CAY WATER SERVICE, INC.  
DOCKET NO. 96-137-W/S**

**Direct Testimony of  
Patricia M. Cuddle  
Manager of Regulatory Accounting**

**S.C. PUBLIC SERVICE COMMISSION**



1 **Q. Ms. Cuddle, please state your business address.**

2 **A. Utilities, Inc., 2335 Sanders Road, Northbrook, IL 60062.**

3

4 **Q. What is your occupation?**

5 **A. I am the Manager of Regulatory Accounting for Utilities, Inc. and its subsidiaries**  
6 **including Tega Cay Water Service, Inc. (Tega Cay).**

7

8 **Q. Please summarize your professional background.**

9 **A. I have been employed by Utilities, Inc. since 1990. I have been involved in rate**  
10 **cases in several jurisdictions and have testified before the Commissions in South**  
11 **Carolina, North Carolina, Florida and Illinois.**

12

13 **I am a Certified Public Accountant. My previous employment experience includes**  
14 **approximately two years of public accounting and six years of regional and**  
15 **corporate finance. I have two Bachelor Degrees from Western Michigan**  
16 **University, a Bachelor of Business Administration and a Bachelor of Science**  
17 **Degree.**

18

19 **Q. Please explain your job responsibilities with Utilities, Inc.**

20 **A. Utilities, Inc. has approximately 57 subsidiaries providing water and wastewater**  
21 **service in 13 states. These subsidiaries own and operate approximately 248**  
22 **utility systems serving over 133,000 customers. I am responsible for the**  
23 **ratemaking activities of this group of companies.**

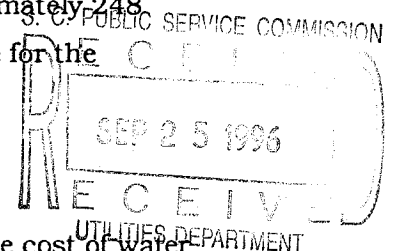
24

25 **Q. What is the purpose of your testimony in this proceeding?**

26 **A. My testimony will sponsor the financial schedules and address the cost of water**  
27 **and sewer service under the proposed rates, the approach used in adjusting test**  
28 **year expenses, rate base adjustments, miscellaneous charges and why the**  
29 **Company is seeking rate relief at this time.**

30

31 **Q. Please describe PMC Exhibit 1.**



1  
RETURN DATE:  
SERVICE: *ok - per David Butler, also*  
*serve Douglas Christensen, Intervenor*  
*on 9/25/96*

1 A. **PMC Exhibit 1** contains the proposed rate schedules that were included with our  
2 application in this proceeding.  
3  
4 **Q. Please describe PMC Exhibit 2.**  
5 A. **PMC Exhibit 2** contains the financial statements for the test year ended  
6 December 31, 1995, that were included with our application in this proceeding.  
7 This exhibit consists of the following schedules:  
8 Schedule A - Balance Sheet  
9 Schedule B - Statements of Income and Expense  
10 Schedule C - Calculation of Operating Margin  
11 Schedule D - Calculation of Rate Base and Rate of Return on Rate Base  
12 Schedule E - Calculation of Revenues  
13 Schedule F - Calculation of Investment in Plant  
14  
15 **Q. What is the impact of the proposed rates on the average water customer?**  
16 A. The average customer's monthly water bill will increase from \$32.41 under the  
17 present rates to \$38.69 under the proposed rates for consumption of 6,380  
18 gallons. This includes the cost of purchasing water from the County. The Tega  
19 Cay portion of the proposed bill is \$19.80. The County portion of the proposed bill  
20 is \$18.89, almost half. The increase in the monthly bill is 19.4%.  
21  
22 **Q. What is the impact of the proposed rates on the average wastewater**  
23 **customer?**  
24 A. The average customer's monthly sewer bill will increase from \$25.00 under the  
25 present rates to \$32.00 under the proposed rates. This represents a 28%  
26 increase.  
27  
28 **Q. Why is Tega Cay seeking rate relief?**  
29 A. A rate increase is necessary to allow the utility to recover the reasonable and  
30 prudent costs of providing service and an opportunity to earn a fair and  
31 reasonable rate of return on its invested capital. During the test year, the  
32 Company did not achieve its authorized return. Tega Cay has had only one rate  
33 case since Utilities, Inc. acquired the utility company in 1991. That rate case was  
34 filed in January 1993 for the sewer system only.  
35

1 The Company was previously required by the Commission to explore the various  
2 alternatives available to improve the quality of the water supplied to the residents  
3 of Tega Cay. The Company concluded that the purchase of bulk water was the  
4 most prudent solution to the water quality concerns of the Tega Cay community.  
5 In the last case, the Company did not request a rate increase for the water utility  
6 since it was looking ahead to interconnect with York County. However, a  
7 distribution charge was established at that time. The interconnect with York  
8 County was made in November 1994.

9  
10 The utility is not able to achieve a reasonable rate of return on its investment.  
11 Under current Commission approved rates, the water and sewer operations will  
12 achieve a negative operating margin of (4.17%). The proposed rates will allow the  
13 Company the opportunity to earn a 9.62% overall rate of return on rate base and  
14 an operating margin of 12.72%. This will allow Tega Cay the ability to maintain  
15 the facilities up to the standards necessary to ensure compliance with regulations  
16 as well as to provide adequate customer service.

17  
18 **Q. What capital investments have been made by Tega Cay since the last rate**  
19 **case?**

20 A. The Company has made significant expenditures to improve the water and sewer  
21 systems. Costs were incurred to improve the distribution reservoirs, mains,  
22 service lines and hydrants. The interconnect was made with York County in  
23 November 1994. Additionally, investments were made to the sewer treatment  
24 plant, mains and lift stations. The divider wall on the aeration basin was  
25 improved; and the diffuser arms and the sludge collector/stilling wet well were  
26 replaced.

27  
28 **Q. How have expenses changed over the past several years since the last rate**  
29 **case?**

30 A. Although the Company has done its best to keep costs down by monitoring  
31 expenses, both operating and maintenance expenses as well as general expenses  
32 have increased. Much of the increase is due to maintenance and repair, testing,  
33 chemicals, meter reading, transportation expense, insurance and taxes other than  
34 income. These expenses are reasonable and necessary in operating the facilities.  
35 While we control these expenses to the best of our ability, often they are beyond  
36 our control. For example, when something breaks it must be repaired; chemicals

1 and testing are required by state and federal regulations; minimal insurance must  
2 be maintained; meter reading is required, and taxes must be paid.

3  
4 As mentioned above, the Company is continually trying to maintain and reduce  
5 costs by monitoring expenses. One noticeable area where expenses have been  
6 reduced is operator salaries and pension and benefits. The Company has not  
7 filled two vacant positions. Since water is being purchased, the Company has  
8 reduced its staff and is trying to maintain adequate service with two less  
9 operators.

10  
11 **Q. Please explain how Tega Cay adjusted test year expenses.**

12 A. Pro forma adjustments were made to the test year expenses based on known and  
13 measurable changes to actual expenses.

14  
15 **Q. Which expenses were adjusted on a pro forma basis for known and  
16 measurable changes?**

17 A. Salaries and wages were decreased to annualize operators salaries as of April  
18 1996. In addition, pension and other benefits and payroll taxes were adjusted to  
19 reflect the change in salaries. This more properly reflects the current cost of these  
20 items.

21  
22 Purchased water was eliminated for rate making purposes because it is a pass  
23 through item on the customer's bill.

24  
25 Maintenance and repair was adjusted for amortization of deferred charges related  
26 to tank maintenance and pressure washing the sewer mains.

27  
28 Transportation was adjusted to include the supervisor's and managers'  
29 transportation expense.

30  
31 Rate case expense was adjusted for the estimated cost of this proceeding.

32  
33 Depreciation was adjusted to reflect the current depreciation expense on plant in  
34 service as of December 31, 1995.

1 Amortization of PAA was eliminated for ratemaking purposes to be consistent with  
2 prior Commission practice.

3  
4 Taxes other than income are adjusted to reflect payroll taxes as they relate to the  
5 adjustment in salaries, and the utility commission tax/gross receipts tax as it  
6 relates to the increase in revenues. Income taxes were computed on taxable  
7 income at current rates. Schedule B of the prefiled exhibits reflects state income  
8 tax calculated at 5.5%. It is my understanding that the state rate is 5.0% and  
9 that rate should be used in this proceeding.

10

11 The adjustment for customer growth was made to reflect the increase in net  
12 operating income that would occur with a growth in customers.

13

14 Interest expense was imputed using a 53.08%/46.92% debt/equity ratio and the  
15 embedded cost of debt to the Utilities, Inc. consolidated group of companies.  
16 Allowance for funds used during construction was eliminated for ratemaking  
17 purposes.

18

19 These pro forma adjustments provide a more representative level of expenses on  
20 an ongoing basis for use in establishing a new schedule of rates.

21

22 **9. Please explain how Tega Cay adjusted test year rate base.**

23 A. Pro forma adjustments were made to the test year rate base for gross plant in  
24 service, accumulated depreciation, working capital, purchase acquisition  
25 adjustment and deferred charges.

26

27 Gross plant in service was adjusted for transportation equipment.

28

29 Accumulated depreciation was adjusted for the accumulated depreciation relating  
30 to transportation equipment.

31

32 Working capital was adjusted based on 1/8 of operating and maintenance  
33 expenses and general expenses.

34

35 Purchase acquisition adjustment and deferred charges were eliminated for  
36 ratemaking purposes to be consistent with prior Commission practice.

1

2 **Q. What change in miscellaneous charges is Tega Cay requesting?**

3 **A.** Tega Cay is requesting a change in the sewer new account charge. The Company  
4 proposes to increase the new account charge from \$20.00 to \$30.00 to be  
5 consistent with the currently approved water new account charge. The sewer  
6 charge is waived if the customer is also a water customer.

7

8 **Q. Does this conclude your testimony?**

9 **A.** Yes.

**TEGA CAY WATER SERVICE, INC.**

**Docket No. 96-137-W/S**

**Proposed Rate Schedules**



**TEGA CAY WATER SERVICE, INC.**

**SCHEDULE OF PROPOSED RATES AND CHARGES WATER  
DOCKET NO. 96-137-W/S**

**I. WATER**

**1. CHARGE FOR WATER DISTRIBUTION ONLY**

Where water is purchased from a government body or agency or other entity for distribution and resale by the Company, the following rates apply:

- a. Base Facilities Charge \$8.00 per single - family  
equivalent unit

**PLUS**

- b. Commodity charge: \$1.85 per 1,000 gallons  
(Usage)

The Utility will also charge for the cost of water supplied by the government body or agency, or other entity. The charges imposed or charged by the government body or agency, or other entity providing water supply will be charged to the Utility's affected customers as determined by the customer's meter without markup.

- c. The basic facility charge is a minimum charge per unit and shall apply even if the equivalency rating is less than one (1). If the equivalency rating is greater than one (1), then the monthly basic facility charge may be obtained by multiplying the equivalency rating by the basic facility charge of \$8.00.

When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter, and consumption of all units will be averaged; a bill will be calculated based on that average plus the addition of the basic facility charge per unit and the result multiplied by the number of units served by a single meter.

**2. NON RECURRING CHARGES**

- a) Tap fee (which includes a \$600.00 per single - family  
water service connection equivalent unit \*\*\*  
charge and capacity fee)

The non recurring charges listed above are minimum charges and apply even if the equivalency is less than one. If the equivalency rating is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for and/or initial connection to the water system is requested.

(\*\*\*Unless prohibited by contract approved by South Carolina Public Service Commission.)

**3. RECONNECTION AND ACCOUNT SET-UP CHARGES**

- a. Water reconnection fee \$40.00
- b. Customer account charges \$30.00  
(one-time fee to be charged  
to each new account to defray  
cost of initiating service)

**4. OTHER SERVICES**

Fire Hydrant - One Hundred (\$100.00) per hydrant per year for water service payable in advance. Any water used should be metered and the commodity charge in Section One (1) above will apply to such usage.

**TEGA CAY WATER SERVICE, INC.**

**SCHEDULE OF PROPOSED RATES AND CHARGES WATER  
DOCKET NO. 96-137-W/S**

**II. SEWER**

**1. MONTHLY CHARGES**

- a. Residential - Monthly Charge \$32.00  
per single-family house,  
condominium, villa or  
apartment unit
- b. Commercial - Monthly Charge \$32.00  
per single-family equivalent
- c. The monthly charges listed above are minimum charges and shall apply even if the equivalency is less than one (1). If the equivalency is greater than one (1), then the monthly charges may be calculated by multiplying the equivalency rating by the monthly charge of \$32.00.

**2. NON RECURRING CHARGES**

- a. Tap fees (which includes sewer \$1,200.00 per single - family  
service connection charges and equivalent unit \*\*\*  
capacity charges)
- b. The non recurring charges listed above are minimum charges and apply even if the equivalency rating of a non residential customer is less than one (1). If the equivalency rating is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the sewer system is requested.

(\*\*\*Unless prohibited by contract approved by South Carolina Public Service Commission.)

**3. NOTIFICATION, ACCOUNT SET-UP AND RECONNECTION CHARGES**

- a. Notification Fee: A fee of \$15.00 shall be charged each customer to whom the Utility mails the notice as required by Commission Rule R.103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost.
- b. Customer Account Charge: A fee of \$30.00 shall be charged as a one-time fee to defray the costs of initiating service. This charge will be waived if the customer is also a water customer.
- c. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of \$250.00 shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-532.4. The amount of the reconnection fee shall be in accordance with R.103-532.4 and shall be changed to conform with said rule, as the rule is amended from time to time.

**TEGA CAY WATER SERVICE, INC.**

**SCHEDULE OF PROPOSED RATES AND CHARGES WATER  
DOCKET NO. 96-137-W/S**

**III. GENERAL PROVISIONS**

**1. BILLING CYCLE**

Recurring charges will be billed monthly or bi-monthly in arrears. Non recurring charges may be billed and collected in advance of service being provided.

**2. LATE PAYMENT CHARGES**

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half percent (1 1/2%) for each month (or any part of a month) that said payment remains unpaid.

**3. TAX MULTIPLIER**

Except as otherwise provided by contract approved by the South Carolina Public Service Commission, amounts paid or transferred to the Utility by customers, builders, developers or others, either in the form of cash or property, shall be increased by a cash payment in an amount equal to the income taxes owed on the cash or property transferred to the Utility by customers, builders, developers, or others, and properly classified as a contribution or advance in aid of construction in accordance with the uniform system of accounts. Included in this classification are tap fees.

**4. TOXIC AND PRETREATMENT EFFLUENT GUIDELINES**

The Utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or The South Carolina Department of Health and Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR 129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR 403.5 and 403.6 are to be processed according to the pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

**5. LANDLORD/TENANT RELATIONSHIP**

In the case of landlord/tenant relationship where the tenant is the customer, the utility may require the landlord to execute an agreement wherein such landlord agrees to be responsible for all charges billed to the premises in accordance with the approved tariffs and Rules of the Commission, and said account shall be considered the landlord's and tenant's account. In the event the landlord refuses to execute such an agreement, the Utility may not discontinue service to the premises unless and until the tenant becomes delinquent on his account or until the premises are vacated. The Utility may discontinue service pursuant to R.103.535.1 if the account is delinquent or may discontinue service at the time the premises are vacated, and the Utility shall not be required to furnish service thereafter to the premises until the landlord has executed the agreement, and paid the reconnection charges.

**6. CONSTRUCTION STANDARDS**

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may

require that more stringent construction standards be followed in constructing parts of the water or sewer system.

7. SINGLE FAMILY EQUIVALENT

The list set forth below establishes the minimum equivalency rating for commercial customers applying for or receiving sewer service from the Utility. Where the Utility has reason to suspect that a person or entity is exceeding design loading established by the South Carolina Pollution Control Authority in a publication called "Guidelines for Unit Contributory Loading to Wastewater Treatment Facilities" (1990), as may be amended from time to time or as may be set forth in any successor publication, the Utility shall have the right to request and receive water usage records from the provider of water to such person or entity. Also, the Utility shall have the right to conduct an "on premises" inspection of the customer's premises. If it is determined that the actual flows or loadings are greater than the design flows or loadings, then the Utility shall recalculate the customer's equivalency rating based on actual flows or loadings and thereafter bill for its service in accordance with such recalculated loadings.

**TEGA CAY WATER SERVICE, INC.**

**Docket No. 96-137-W/S**

**Financial Statements**

## TEGA CAY WATER SERVICE, INC.

Balance Sheet

December 31, 1995

Schedule A

**ASSETS**

## Plant In Service

Water  
Sewer\$ 2,693,275  
8,575,272

Total

\$ 11,268,547

Accumulated Depreciation-Water  
Accumulated Depreciation-Sewer(183,003)  
(483,492)

Total

\$ (666,495)

## Net Utility Plant

\$ 10,602,052

Plant Acquisition Adjustment-Water  
Plant Acquisition Adjustment-Sewer43,932  
275,636

Total

\$ 319,568

## Current Assets

Accounts Receivable - Net  
Other Current Assets64,172  
1,000

Total

\$ 65,172

## Deferred Charges

33,720

## TOTAL ASSETS

\$ 11,020,512

**LIABILITIES AND OTHER CREDITS**Capital Stock and Retained Earnings  
Common Stock and Paid In Capital  
Retained Earnings\$ 2,689,600  
(48,767)

Total

\$ 2,640,833

Current and Accrued Liabilities  
Accounts Payable-Trade  
Taxes Accrued(15,116)  
13,241

Customer Deposits

24,525

Customer Deposits - Interest

3,351

Other

15,000

Total

\$ 41,001

## Contributions In Aid of Construction

Water  
Sewer1,952,409  
6,150,236

Total

\$ 8,102,645

## Accumulated Deferred Income Tax

Unamortized ITC

64,172

Deferred Tax - ACRS

1,000

Deferred Tax - Tap Fees and CIAC

225,139

Deferred Tax - Operations

(78,029)

Total

\$ 236,033

## TOTAL LIABILITIES AND OTHER CREDITS

\$ 11,020,512

## TEGA CAY WATER SERVICE, INC.

Combined Operations

Test Year and Pro Forma Income Statement

Test Year Ended December 31, 1995

Schedule B

Page 1 of 4

	Per Books	Accounting and Pro Forma Adjustments	As Adjusted	Proposed Increase	Effect of Proposed Increase
<u>Operating Revenues</u>					
Service Revenues	\$ 657,789	\$ 8,047 (a)	\$ 665,836	\$ 226,807 (a)	\$ 892,643
Miscellaneous Revenues	13,139	188 (b)	13,327	4,716 (b)	18,043
Uncollectible Accounts	(1,998)	(24) (c)	(2,022)	(689) (c)	(2,711)
Total Operating Revenues	668,930	8,211	677,141	230,834	907,975
<u>Maintenance Expenses</u>					
Salaries and Wages	113,196	(51,767) (d)	61,429	0	61,429
Purchased Power	71,898	0	71,898	0	71,898
Purchased Water	(9,824)	9,824 (e)	0	0	0
Maintenance and Repair	81,054	(308) (f)	80,746	0	80,746
Maintenance Testing	15,575	0	15,575	0	15,575
Chemicals	20,528	0	20,528	0	20,528
Meter Reading	9,090	0	9,090	0	9,090
Transportation	12,094	5,305 (g)	17,399	0	17,399
Operating Exp. Charged to Plant	(3,550)	1,623 (h)	(1,927)	0	(1,927)
Outside Services - Other	11,857	0	11,857	0	11,857
Total	321,918	(35,323)	286,595	0	286,595
<u>General Expenses</u>					
Salaries and Wages	52,234	(1,279) (d)	50,955	0	50,955
Office Supplies & Other Office Exp.	17,898	0	17,898	0	17,898
Regulatory Commission Exp.	19,160	(2,493) (i)	16,667	0	16,667
Pension & Other Benefits	30,302	(11,173) (j)	19,129	0	19,129
Rent	4,131	0	4,131	0	4,131
Insurance	14,271	0	14,271	0	14,271
Office Utilities	10,039	0	10,039	0	10,039
Miscellaneous	6,164	0	6,164	0	6,164
Total	154,199	(14,945)	139,254	0	139,254
Depreciation	68,086	316 (k)	68,402	0	68,402
Amortization of PAA	6,947	(6,947) (l)	0	0	0
Payroll Taxes	13,637	(4,279) (m)	9,358	0	9,358
Gross Receipt Taxes	2,398	5,050 (m)	7,448	2,539 (m)	9,987
Other Taxes	99,511	0	99,511	0	99,511
Income Taxes - Federal	(53,010)	38,119 (n)	(14,891)	73,350 (n)	58,459
Income Taxes - State	(16,654)	14,104 (n)	(2,550)	12,557 (n)	10,007
Customer Deposit Interest	715	0	715	0	715
Amortization of ITC	0	0	0	0	0
Rental & Other Income	(1,469)	0	(1,469)	0	(1,469)
Total	120,161	46,363	166,524	88,446	254,970
Total Operating Expenses	596,278	(3,905)	592,373	88,446	680,819
<u>Net Operating Income</u>	72,652	12,115	84,767	142,388	227,155
Adj. for Customer Growth	0	680 (o)	680	1,332 (o)	2,012
Operating Income After Growth Adj.	72,652	12,795	85,447	143,720	229,167
AFUDC	(1,052)	1,052 (p)	0	0	0
Interest on Debt	176,870	(63,194) (q)	113,676	0	113,676
Net Income	\$ (103,166)	\$ 74,937	\$ (28,229)	\$ 143,720	\$ 115,491

TEGA CAY WATER SERVICE, INC.  
Water Operations  
Test Year and Pro Forma Income Statement  
Test Year Ended December 31, 1994

Schedule B  
Page 2 of 4

	Per Books	Accounting and Pro Forma Adjustments	As Adjusted	Proposed Increase	Effect of Proposed Increase
<u>Operating Revenues</u>					
Service Revenues	\$ 232,254	\$ 6,857 (a)	\$ 239,111	\$ 107,324 (a)	\$ 346,435
Miscellaneous Revenues	5,662	167 (b)	5,829	2,616 (b)	8,445
Uncollectible Accounts	(705)	(21) (c)	(726)	(326) (c)	(1,052)
Total Operating Revenues	237,211	7,003	244,214	109,615	353,829
<u>Maintenance Expenses</u>					
Salaries and Wages	57,877	(26,468) (d)	31,409		31,409
Purchased Power	5,752		5,752		5,752
Purchased Water	(9,824)	9,824 (e)	0		0
Maintenance and Repair	29,648	101 (f)	29,749		29,749
Maintenance Testing	958		958		958
Chemicals	3,719		3,719		3,719
Meter Reading	9,090		9,090		9,090
Transportation	6,184	2,712 (g)	8,896		8,896
Operating Exp. Charged to Plant	(1,815)	830 (h)	(985)		(985)
Outside Services - Other	6,062		6,062		6,062
Total	107,651	(13,001)	94,650	0	94,650
<u>General Expenses</u>					
Salaries and Wages	26,707	(654) (d)	26,053		26,053
Office Supplies & Other Office Exp.	9,151		9,151		9,151
Regulatory Commission Exp.	9,796	(1,274) (i)	8,522		8,522
Pension & Other Benefits	15,495	(5,715) (j)	9,780		9,780
Rent	2,112		2,112		2,112
Insurance	7,297		7,297		7,297
Office Utilities	5,131		5,131		5,131
Miscellaneous	3,151		3,151		3,151
Total	78,840	(7,643)	71,197	0	71,197
Depreciation	18,507	(683) (k)	17,824		17,824
Amortization of PAA	955	(955) (l)	0		0
Payroll Taxes	6,972	(2,187) (m)	4,785		4,785
Gross Receipt Taxes	847	1,839 (m)	2,686	1,206 (m)	3,892
Other Taxes	49,621		49,621		49,621
Income Taxes - Federal	(19,791)	12,562 (n)	(7,229)	34,831 (n)	27,602
Income Taxes - State	(6,218)	4,980 (n)	(1,238)	5,963 (n)	4,725
Customer Deposit Interest	366		366		366
Amortization of ITC	0		0		0
Rental & Other Income	(751)		(751)		(751)
Total	50,508	15,556	66,064	42,000	108,064
Total Operating Expenses	236,999	(5,088)	231,911	42,000	273,911
Net Operating Income	212	12,092	12,304	67,615	79,919
Adj. for Customer Growth		141 (o)	141	776 (o)	917
Operating Income After Growth Adj.	212	12,233	12,445	68,391	80,835
AFUDC	(538)	538 (p)	0		0
Interest on Debt	39,265	(12,927) (q)	26,338		26,338
Net Income	\$ (38,515)	\$ 24,622	\$ (13,893)	\$ 68,391	\$ 54,497



## TEGA CAY WATER SERVICE, INC.

## Sewer Operations

Test Year and Pro Forma Income Statement

Test Year Ended December 31, 1994

Schedule B

Page 3 of 4

	Per Books	Accounting and Pro Forma Adjustments	As Adjusted	Proposed Increase	Effect of Proposed Increase
<u>Operating Revenues</u>					
Service Revenues	\$ 425,535	\$ 1,190 (a)	\$ 426,725	119,483 (a)	\$ 546,208
Miscellaneous Revenues	7,477	21 (b)	7,498	2,099 (b)	9,597
Uncollectible Accounts	(1,293)	(4) (c)	(1,297)	(363) (c)	(1,660)
Total Operating Revenues	431,719	1,207	432,926	121,219	554,146
<u>Maintenance Expenses</u>					
Salaries and Wages	55,319	(25,299) (d)	30,020		30,020
Purchased Power	66,146		66,146		66,146
Purchased Water	0		0		0
Maintenance and Repair	51,406	(409) (f)	50,997		50,997
Maintenance Testing	14,617		14,617		14,617
Chemicals	16,809		16,809		16,809
Meter Reading	0		0		0
Transportation	5,910	2,593 (g)	8,503		8,503
Operating Exp. Charged to Plant	(1,735)	793 (h)	(942)		(942)
Outside Services - Other	5,795		5,795		5,795
Total	214,267	(22,322)	191,945	0	191,945
<u>General Expenses</u>					
Salaries and Wages	25,527	(625) (d)	24,902		24,902
Office Supplies & Other Office Exp.	8,747		8,747		8,747
Regulatory Commission Exp.	9,364	(1,219) (i)	8,145		8,145
Pension & Other Benefits	14,807	(5,458) (j)	9,349		9,349
Rent	2,019		2,019		2,019
Insurance	6,974		6,974		6,974
Office Utilities	4,908		4,908		4,908
Miscellaneous	3,013		3,013		3,013
Total	75,359	(7,302)	68,057	0	68,057
Depreciation	49,579	999 (k)	50,578		50,578
Amortization of PAA	5,992	(5,992) (l)	0		0
Payroll Taxes	6,665	(2,092) (m)	4,573		4,573
Gross Receipt Taxes	1,551	3,211 (m)	4,762	1,333 (m)	6,095
Other Taxes	49,890		49,890		49,890
Income Taxes - Federal	(33,219)	25,557 (n)	(7,662)	38,519 (n)	30,857
Income Taxes - State	(10,436)	9,124 (n)	(1,312)	6,594 (n)	5,282
Customer Deposit Interest	349		349		349
Amortization of ITC	0		0		0
Rental & Other Income	(718)		(718)		(718)
Total	69,653	30,807	100,460	46,446	146,906
Total Operating Expenses	359,279	1,184	360,463	46,446	406,909
<u>Net Operating Income</u>	72,440	23	72,463	74,773	147,237
Adj. for Customer Growth		539 (o)	539	556 (o)	1,095
Operating Income After Growth Adj.	72,440	562	73,002	75,329	148,332
AFUDC	(514)	514 (p)	0		0
Interest on Debt	137,605	(50,267) (q)	87,338		87,338
Net Income	\$ (64,651)	\$ 50,315	\$ (14,336)	\$ 75,329	\$ 60,994

- (a) Service Revenue is adjusted to reflect test year customers at present and proposed rates as shown on Schedule E of the filing.
- (b) Miscellaneous Revenue is adjusted to reflect the increase in late payment charges as it relates to the increase in service revenue.
- (c) Uncollectible Accounts are adjusted to reflect the increase in uncollectibles as they relate to the increase in service revenue.
- (d) Salaries and Wages are adjusted to annualize operators and office salaries as of 4/23/96.
- (e) Purchased Water is removed for ratemaking purposes.
- (f) Maintenance and Repair is adjusted to annualize deferred charge amortization.
- (g) Transportation is adjusted to annualize transportation expense.
- (h) Operating Expense Charged to Plant is adjusted to reflect the adjustment to operator salaries.
- (i) Regulatory Commission Expense is adjusted for the estimated cost of this proceeding amortized over three years.
- (j) Pension and Other Benefits are adjusted to reflect the changes in benefits as they relate to the change in salaries.
- (k) Depreciation is adjusted to reflect the current depreciation expense on plant in service at December 31, 1995.
- (l) Amortization of PAA is removed for ratemaking purposes.
- (m) Taxes Other Than Income are adjusted to reflect the changes in payroll taxes as they relate to the change in salaries, and the change in the gross receipts tax as it relates to the change in revenue.
- (n) Income Taxes are computed on taxable income at current rates.
- (o) Adjustment for Customer Growth is made to reflect the increase in net income that would occur with a growth in customers.
- (p) Allowance for Funds Used During Construction (AFUDC) is removed for ratemaking purposes.
- (q) Interest on Debt is computed using a 53.08%/46.92% debt/equity ratio and the embedded cost of debt to the parent company, Utilities, Inc. The embedded cost of debt is 8.99%.

TEGA CAY WATER SERVICE, INC.  
Operating Margin

Schedule C

	<u>Test Year</u>	<u>As Adjusted</u>	<u>Effect of Proposed Increase</u>
<u>Water and Sewer Operations</u>			
Net Income	(103,166)	(28,229)	115,491
Revenues	668,930	677,141	907,975
Operating Margin	<u>-15.42%</u>	<u>-4.17%</u>	<u>12.72%</u>
<u>Water Operations</u>			
Net Income	(38,515)	(13,893)	54,497
Revenues	237,211	244,214	353,829
Operating Margin	<u>-16.24%</u>	<u>-5.69%</u>	<u>15.40%</u>
<u>Sewer Operations</u>			
Net Income	(64,651)	(14,336)	60,994
Revenues	431,719	432,926	554,146
Operating Margin	<u>-14.98%</u>	<u>-3.31%</u>	<u>11.01%</u>

TEGA CAY WATER SERVICE, INC.  
Combined Operations  
Rate Base and Rate of Return  
Test Year Ended December 31, 1995

Schedule D  
Page 1 of 4

	Per Books	Accounting and Pro Forma Adjustments	As Adjusted	Proposed Increase	Effect of Proposed Increase
Net Operating Income	\$ 72,652	\$ 12,795	\$ 85,447	\$ 143,720	\$ 229,167
Gross Plant In Service	\$ 11,268,547	\$ 2,802 (a)	\$ 11,271,349	\$ 0	\$ 11,271,349
Accumulated Depreciation	(666,495)	12,913 (b)	(653,582)	0	(653,582)
Net Plant In Service	10,602,052	15,715	10,617,767	0	10,617,767
Cash Working Capital	73,659	(6,819) (c)	66,840	0	66,840
Contributions In Aid of Construction	(8,102,645)	0	(8,102,645)	0	(8,102,645)
Purchase Acquisition Adjustment	319,568	(319,568) (d)	0	0	0
Accumulated Deferred Income Taxes	(236,033)	0	(236,033)	0	(236,033)
Customer Deposits	(24,525)	0	(24,525)	0	(24,525)
Deferred Charges	33,720	(33,720) (e)	0	0	0
Water Service Corporation	60,848	0	60,848	0	60,848
	0	0	0	0	0
Total Rate Base	\$ 2,726,644	\$ (344,392)	\$ 2,382,252	\$ 0	\$ 2,382,252
Return on Rate Base	2.66%		3.59%		9.62%

TEGA CAY WATER SERVICE, INC.  
Water Operations  
Rate Base and Rate of Return  
Test Year Ended December 31, 1994

Schedule D  
Page 2 of 4

	Per Books	Accounting and Pro Forma Adjustments	As Adjusted	Proposed Increase	Effect of Proposed Increase
Net Operating Income	\$ <u>212</u>	\$ <u>12,233</u>	\$ <u>12,445</u>	\$ <u>68,391</u>	\$ <u>80,835</u>
Gross Plant In Service	\$ 2,693,275	\$ 1,433 (a)	\$ 2,694,708	\$	\$ 2,694,708
Accumulated Depreciation	<u>(183,003)</u>	<u>6,602</u> (b)	<u>(176,401)</u>		<u>(176,401)</u>
Net Plant In Service	2,510,272	8,035	2,518,307	0	2,518,307
Cash Working Capital	30,386	(2,854) (c)	27,532		27,532
Contributions In Aid of Construction	<u>(1,952,409)</u>		<u>(1,952,409)</u>		<u>(1,952,409)</u>
Purchase Acquisition Adjustment	43,932	(43,932) (d)	0		0
Accumulated Deferred Income Taxes	(59,973)		(59,973)		(59,973)
Customer Deposits	(12,540)		(12,540)		(12,540)
Deferred Charges	17,976	(17,976) (e)	0		0
Water Service Corporation	31,032		31,032		31,032
			0		0
Total Rate Base	\$ <u>608,676</u>	\$ <u>(56,727)</u>	\$ <u>551,949</u>	\$ <u>0</u>	\$ <u>551,949</u>
Return on Rate Base	<u>0.03%</u>		<u>2.25%</u>		<u>14.65%</u>

TEGA CAY WATER SERVICE, INC.  
Sewer Operations  
Rate Base and Rate of Return  
Test Year Ended December 31, 1994

Schedule D  
Page 3 of 4

	Per Books	Accounting and Pro Forma Adjustments	As Adjusted	Proposed Increase	Effect of Proposed Increase
Net Operating Income	\$ 72,440	\$ 562	\$ 73,002	\$ 75,329	\$ 148,332
Gross Plant In Service	\$ 8,575,272	\$ 1,369 (a)	\$ 8,576,641	\$	\$ 8,576,641
Accumulated Depreciation	(483,492)	6,311 (b)	(477,181)		(477,181)
Net Plant In Service	8,091,780	7,680	8,099,460	0	8,099,460
Cash Working Capital	43,273	(3,965) (c)	39,308		39,308
Contributions In Aid of Construction	(6,150,236)		(6,150,236)		(6,150,236)
Purchase Acquisition Adjustment	275,636	(275,636) (d)	0		0
Accumulated Deferred Income Taxes	(176,060)		(176,060)		(176,060)
Customer Deposits	(11,985)		(11,985)		(11,985)
Deferred Charges	15,744	(15,744) (e)	0		0
Water Service Corporation	29,816		29,816		29,816
			0		0
Total Rate Base	\$ 2,117,968	\$ (287,665)	\$ 1,830,303	\$ 0	\$ 1,830,303
Return on Rate Base	3.42%		3.99%		8.10%

**TEGA CAY WATER SERVICE, INC.**

Explanation of Adjustments on Rate Base Statement  
Test Year Ended December 31, 1995

Schedule D  
Page 4 of 4

- (a) Gross Plant In Service is adjusted for transportation equipment.
- (b) Accumulated Depreciation is adjusted for that which is related to transportation equipment.
- (c) Cash Working Capital is computed using a ratio of 45/360 days applied to appropriate operating expenses.
- (d) Plant Acquisition Adjustment is removed for ratemaking purposes.
- (e) Deferred Charges are removed for ratemaking purposes.

**TEGA CAY WATER SERVICE, INC.**

**Calculation of Test Year Water Revenues**

Using Actual Consumption and Billing Units, By Rate Structure

Schedule E

Page 1 of 6

	<u>Bill Code</u>	<u>Billing Units</u>	<u>Consumption</u>	<u>Monthly Rates</u>	<u>Revenue</u>
Residential Water	48501	16,522		\$ 6.00 per bill cycle	\$ 99,132
			105,419,405	1.18 per 1,000 gals	124,395
Commercial Water	48502	468		6.00 per bill cycle	2,808
			4,049,700	1.18 per 1,000 gals	4,779
Hydrant Rental	48540	<u>960</u>		8.33 per bill cycle	<u>7,997</u>
Total Water Revenues		<u>17,950</u>	<u>109,469,105</u>		\$ <u>239,111</u>

Revenues per General Ledger	232,254
Adjustments - Accrual	<u>4,208</u>
Adjusted Revenues per G/L	<u>236,462</u>
Revenues per Above	<u>239,111</u>
Unreconcilable Difference	<u>(2,649)</u>
	-1.12%



**TEGA CAY WATER SERVICE, INC.**

Calculation of Pro Forma Present Water Revenues

Using Actual Consumption and Billing Units, By Rate Structure

Schedule E

Page 2 of 6

	<u>Bill Code</u>	<u>Billing Units</u>	<u>Consumption</u>	<u>Monthly Rates</u>	<u>Revenue</u>
Residential Water	48501	16,522		\$ 6.00 per bill cycle	\$ 99,132
			105,419,405	1.18 per 1,000 gals	124,395
Commercial Water	48502	468		6.00 per bill cycle	2,808
			4,049,700	1.18 per 1,000 gals	4,779
Hydrant Rental	48540	<u>960</u>		8.33 per bill cycle	<u>7,997</u>
Total Water Revenues		<u>17,950</u>	<u>109,469,105</u>		\$ <u>239,111</u>

**TEGA CAY WATER SERVICE, INC.**

Calculation of Pro Forma Proposed Water Revenues

Using Actual Consumption and Billing Units, By Rate Structure

Schedule E

Page 3 of 6

	<u>Bill Code</u>	<u>Billing Units</u>	<u>Consumption</u>	<u>Monthly Rates</u>	<u>Revenue</u>
Residential Water	48501	16,522		\$ 8.00 per bill cycle	\$ 132,176
			105,419,405	1.85 per 1,000 gals	195,026
Commercial Water	48502	468		8.00 per bill cycle	3,744
			4,049,700	1.85 per 1,000 gals	7,492
Hydrant Rental	48540	<u>960</u>		8.33 per bill cycle	<u>7,997</u>
Total Water Revenues		<u>17,950</u>	<u>109,469,105</u>		\$ <u>346,435</u>

**TEGA CAY WATER SERVICE, INC.**

## Calculation of Test Year Sewer Revenues

Using Actual Consumption and Billing Units, By Rate Structure

Schedule E

Page 4 of 6

	<u>Bill Code</u>	<u>Billing Units</u>	<u>Consumption</u>	<u>Monthly Rates</u>	<u>Revenue</u>
Residential Sewer	48521	16,515		25.00 per bill cycle	412,875
Commercial Sewer	48522	554		25.00 per bill cycle	13,850
Total Sewer Revenues		<u>17,069</u>	<u>0</u>		\$ <u>426,725</u>

Revenues per General Ledger	425,535
Adjustments	<u>          </u>
Adjusted Revenues per General Ledger	<u>425,535</u>
Revenues per Above	<u>426,725</u>
Unreconcilable Difference	<u>(1,190)</u>
	-0.28%

**TEGA CAY WATER SERVICE, INC.**

Calculation of Pro Forma Present Sewer Revenues

Using Actual Consumption and Billing Units, By Rate Structure

Schedule E

Page 5 of 6

	<u>Bill Code</u>	<u>Billing Units</u>	<u>Consumption</u>	<u>Monthly Rates</u>	<u>Revenue</u>
Residential Sewer	48521	16,515		25.00 per bill cycle	412,875
Commercial Sewer	48522	<u>554</u>	<u></u>	25.00 per bill cycle	<u>13,850</u>
Total Sewer Revenues		<u>17,069</u>	<u>0</u>		\$ <u>426,725</u>

**TEGA CAY WATER SERVICE, INC.**

## Calculation of Pro Forma Proposed Sewer Revenues

Using Actual Consumption and Billing Units, By Rate Structure

Schedule E

Page 6 of 6

	<u>Bill Code</u>	<u>Billing Units</u>	<u>Consumption</u>	<u>Monthly Rates</u>	<u>Revenue</u>
Residential Sewer	48521	16,515		32.00 per bill cycle	528,480
Commercial Sewer	48522	<u>554</u>	<u></u>	32.00 per bill cycle	<u>17,728</u>
Total Sewer Revenues		<u>17,069</u>	<u>0</u>		\$ <u>546,208</u>

**TEGA CAY WATER SERVICE, INC.**

Schedule F

Schedule of Investment in Water and Sewer Plant  
Test Year Ended December 31, 1995

	Water	Sewer	Total
	-----	-----	-----
Utility Plant - Net	\$ 2,510,272	8,091,780	10,602,052
Utility Plant Acquisition Adjustment	0	0	0
Contributions in Aid of Construction	(1,952,409)	(6,150,236)	(8,102,645)
	-----	-----	-----
Net Investment	\$ 557,863	1,941,544	2,499,407
	=====	=====	=====